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SUBJECT: PANAMA: SCENESETTER FOR CODEL LEVIN

SUMMARY

¶1. (SBU) The fate of the U.S./Panama Free Trade Agreement (FTA) will determine the trajectory of our bilateral relationship through the foreseeable future. Congressional passage and a successful implementation of the FTA would serve to maintain extraordinary, yet vulnerable, U.S. influence in Panama and drive further reforms. A failed FTA will be a blow to reformers and will strengthen both traditional and nationalist (anti-United States) voices in Panama and those in a new generation who simply call for fewer American-centric policies. Failure could also increase uncertainty about the \$6.2 billion stock of U.S. investment in Panama. President Torrijos who will leave office on June 30 has the will and the influence in the National Assembly to push through labor and contentious bearer share reforms. However, the FTA process in Panama almost certainly will falter if additional conditions from the U.S. are demanded at this time or if the legislative changes do not occur under the Torrijos Administration. The next administration, which will likely be led by supermarket tycoon Ricardo Martinelli, will not be as politically invested in the FTA and may not have the legislative muscle to push through the labor and bearer share legislation, especially in the short term. Indeed, for those invested in strengthening labor standards and practices and promoting transparency in Panama, the next 80 days provide a unique window of opportunity. End Summary.

Panama After Operation Just Cause

¶2. (SBU) Since the 1989 restoration of democracy, Panama has established and consolidated a democratic, stable and responsive government; accelerated economic growth through open markets; and strived to ensure that the benefits of that growth reach all citizens. While a hemispheric leader in progress on these fronts, Panama today stands at a crossroads. Its political establishment is fast approaching its fourth presidential election since 1990, yet cynicism abounds. Panama has leveraged its superb stewardship of the Canal and central location to create an economic and logistical architecture that is yielding now comparatively stellar economic growth and a substantial reduction in poverty. However, opportunities created by the growth remain elusive to many Panamanians due to continued income inequality fostered by lack of access to quality education and inadequate public infrastructure (especially transportation and health).

May 3 Elections

¶3. (SBU) Panama will hold general elections on May 3, 2009, to choose a president and to fill every elected seat in Panama's National Assembly. We fully expect this date to herald the fourth free and fair election since Operation Just Cause in December 1989 restored democracy in Panama. According to polls, a population focused on insecurity from the rising rate of crime and lingering economic insecurity from the now abating rate of inflation has grown cynical about its government's ability to deliver security and sustained social and economic progress. The race is now basically a two-person race, with opposition Democratic Change (CD) party candidate Ricardo Martinelli enjoying a steady 12-15% lead in the polls over the candidate of President Torrijos' Revolutionary Democratic Party (PRD), former Housing Minister Balbina Herrera. Martinelli has thus far successfully positioned himself as the candidate for change, in part as a result of an impressive campaign financed in part from his substantial fortune (Martinelli owns a major supermarket chain in Panama). Herrera has been campaigning on a platform of continuity with Torrijos' successful administration, but has suffered from several political missteps by the Torrijos administration, and by her past association with Manuel Noriega, and her reputation as a left wind firebrand in the past. The explosion of the Murcia (a Colombian pyramid scheme kingpin who operated in Panama) case has roiled the political landscape in the wake of his credibly detailed public description of funneling \$6 million to the PRD (including Herrera) and Herrera's assertion that Martinelli through his business laundered money for Murcia.

Torrijos wants the FTA

¶4. (SBU) President Torrijos, who leaves office July 1, asserts he fulfilled all major campaign promises, but one - the FTA. The FTA is a legacy issue; President Torrijos desires a 'book-end' to his father's Canal treaties. Thus President Torrijos and his administration are willing to spend political capital to legislatively address labor and bearer share issues brought up by the U.S. legislative and executive branches. However, this late in his administration, that capital, while still powerful, is limited. Due to the timing of the election, the choreography of the potential movement of the FTA through Congress and synchronization with potential Panamanian reforms is difficult. The U.S. legislative and executive branches must signal to the Panamanians that the U.S. Congress will vote on the FTA in order to rally the PRD majority in the National Assembly to pass legislation on labor issues and bearer shares during the Panamanian lame duck session (after the May 3 elections, but before the July 1 transfer of power). The legislation is politically difficult. On labor, President Torrijos' center-left majority can muster the votes, but cannot appear to be kowtowing to the United States. On bearer shares, the Torrijos Administration faces powerful and persistent opposition by lawyers who issue those shares, two of whom are former Panamanian ambassadors to the United States, and many of whom are stalwart contributors to the PRD. If additional conditions are requested by the United States (such as the completion of a TIEA), the Torrijos Administration will lack the influence to push all necessary legislation through the National Assembly.

¶5. (SBU) After July 1, a new Administration assumes power. A hypothetical Martinelli administration, based on a small and weak party (Democratic Change), will spend considerable effort merely maintaining an unwieldy four party coalition to govern. Even if Martinelli's Alliance for Change coalition wins a National Assembly majority, his coalition would likely splinter if forced to vote on labor reforms. Should Herrera win, it is likely that she will strive to maintain the same good relations with the U.S. as Torrijos has, though her

advisors tend to be more left-wing and anti-American than Torrijos'. For any incoming administration, the immediate challenges of governing will be daunting. On May 3, every elected seat in national and local government will contested in a once-every-five-year poll. Once the dust settles on the elections, members of the new government will find little continuity, as the Panama's civil service remains small and almost non-existent in most major non-security related ministries.

Panamanian Reforms - Labor

¶ 6. (SBU) The Panamanian Government indicated to USTR, Secretary Clinton, Majority Leader Hoyer, and other Members of Congress that legislation will be passed during a lame duck National Assembly in order to adjust the Panamanian labor code to comply with standards of the International Labor Organization (ILO). Torrijos enjoys a broad labor support, as embodied in Panama's unanimous election to the ILO Presidency at the 2008 ILO World Conference. Currently, USTR and the Panamanian Government are negotiating the details.

Panamanian Reforms - Tax Haven

¶ 7. (SBU) Many sources have labeled Panama as a tax haven. However, Panama is not the stereotypical post office box destination for corporations seeking to avoid U.S. taxation. Rather, the vast majority of U.S. companies that locate subsidiaries in Panama do so to expand market share in Latin America. U.S. businesses are attracted to Panama due to the use of the U.S. dollar, modern banking system, Colon Free Zone, and transportation/logistical architecture that includes the Panama Canal, Panama Canal railroad, major ports, and a regional air hub. Companies use Panama as a marketing and distribution platform to expand brand awareness and sales in the region, often leading to increased employment in the United States.

¶ 8. (SBU) The reason Panama does not fit into this stereotype is that Panama has effective anti-money laundering/anti-terrorist finance banking regulation. Additionally, Although Panama has substantially bolstered its anti-money laundering/terrorist finance regime, especially in the well-regulated banking sector, transparency issues remain, concentrated in the corporate practices of Panama's loosely regulated legal profession. Under Panamanian law, lawyers are the only group empowered to establish corporations, including shell corporations that issue bearer shares. Bearer shares serve as an extremely powerful 'cloaking device' for financial crimes. Held anonymously by "the bearer," these instruments allow the persons possessing them to store and transfer funds with little risk of detection. Often wealthy individuals or companies will open an "anonymous society" corporation in Panama. The President and Directors of the company are random people paid a nominal sum to sign a legal document that allows them to be the "leadership" of the anonymous society corporation. However, true ownership lies in the person who physically controls the bearer shares. The person who physically controls bearer shares likely will not be able to deposit them in a Panamanian bank without strict disclosure requirements, as the banks are tightly bound by know-your-customer rules. However, nothing stops bearer shares holders from traveling to a country with lax banking regulations and opening bank accounts through an attorney or other proxy (who can hide the identity of the holder of the bearer shares).

¶ 9. (SBU) After substantial engagement from the U.S. Government, the Government of Panama announced on April 7 that it intends to regulate bearer shares. This breakthrough, when fully executed, will fulfill the USG's most prominent financial crimes regulatory recommendation, and remedy Panama's sole grave remaining anti-money

laundering/counter-terrorism finance (AML/CFT) deficiency. Without the effective regulation of bearer shares through immobilization (registration), disclosures under any future Tax Information Exchange Agreement (TIEA) will remain incomplete - blocked by the secrecy of beneficial ownership of the corporation. Immobilization requires the registration of the beneficial owners of those shares -- as opposed to mere disclosure of directors and resident agents of anonymous society corporations issuing the shares. The GOP's statement does not specifically mention immobilization. However, it telegraphs this measure by mandating formation of a "working team" to "propose concrete actions" to "increase levels of responsibility and transparency with respect to the titling of anonymous societies." Responding to Congressional concerns, the USG has also engaged on a TIEA, we believe that in light of recent G20/OECD efforts in this area (as well as the related commitments of peer nations) that a TIEA is inevitable - but not achievable in the Torrijos Administration. The GOP committed to acceding to the OECD Model Convention on Double Taxation (Chapter 26 of which includes a TIEA regime) in a March 25 letter to the OECD Secretary General. However, without the intermediate step of regulation of bearer shares, a TIEA is of nominal value and would do little to address the closely related law enforcement and money laundering issues. Dealing with the TIEA via the G20 would be vastly more effective as this route would diffuse the issue of nationalist and sovereignty rhetoric.

Limits of the President's Political Capital

¶10. (SBU) The Torrijos Administration has the political capital to implement the labor and bearer shares reforms. However, the ability to pass a TIEA or other additional conditions likely is not achievable, because President Torrijos would need to overcome the opposition of additional interest groups and newly inflamed sovereignty emotions stemming from that fact that Panama would be the single country required to negotiate a TIEA as a precondition to an FTA - after FTA negotiations had been completed.. The resulting perception in Panama is likely to be that the FTA failed due to "onerous" demands from the gringos (after the FTA was already signed by the respective governments). The nondemocratic and nationalistic segments of Panamanian society will be strengthened by using a caricature of an imperialistic America that is turning its back on the Panamanian people. While Panamanian society as a whole will not follow these segments of society, American influence with a small, but important ally, that effectively manages a strategic waterway, will be diminished.

¶11. (U) End Scenesetter. Below are short fact sheets on the Panama's Economy, U.S./Panama Trade, Counter-Narcotics, Merida and Panama, and Security/Counter-Terrorism.

PANAMA'S ECONOMY

¶12. (SBU) Behind the construction cranes and traffic jams is an expanding economic/logistical architecture. Its foundation is the Canal through which passes roughly 5% of world commerce. The Panama Canal Authority (ACP) has embarked on a \$5.25 billion dollar expansion, the centerpiece of which is a third set of locks capable of handling the largest class of container vessels. A growing network of ports, including Manzanillo International Terminal in Colon (partially owned by U.S. firm Carrix), facilitates trans-isthmian logistics along with revitalized Kansas City Southern Railway between Panama City and Colon. Panama Ports (Hutchison Port holdings, Inc. of Hong Kong) launched a \$240 million expansion of its Pacific and Caribbean terminals, augmenting the GOP's construction of the \$215 million Panama-Colon Highway. The Colon Free Zone generated over \$19 billion in trade last year. It serves as a hemispheric "one-stop shop" for sourcing, financing, and delivering products (mostly from

Asia) to Latin American markets.

¶13. (SBU) Panama's robust financial center, with 90 banks and \$63 billion in assets fuels the purchase and movement of cargo and facilitates the absorption of robust foreign direct investment (FDI) inflows that totaled \$2.4 billion for 2008. Through generally prudent management, it has been able to finance construction projects and consumer spending, key drivers of GDP growth - 11.5% last year and roughly 9% in **¶2008**. Although the global financial crisis will impact Panama, growth is expected to be 1-3% - one of the only countries in the hemisphere expecting positive growth.

¶14. (SBU) In recent years, Panama has reached beyond its traditional maritime and financial networks to build connectivity of data and knowledge, and people. Panama lies at the junction of five high bandwidth submarine fiber optic cables, placing Panama City second only to New York City in bandwidth availability. This feature was key in the decisions of Dell and Hewlett-Packard to locate regional headquarters at the former Howard Air Base, which is undergoing a \$705 million transformation as a regional manufacturing and distribution hub.

¶15. (SBU) Panama's tourism industry has similarly mushroomed in the past five years, with tourist arrivals increasing from 600,000 to 1.6 million between 2000 and 2008. Arrivals at Tocumen International Airport reflect a similar trend, climbing from over 2.1 million in 2000 to an estimated 4.5 million in 2008. Tocumen recently completed an \$85 million expansion of its international terminal, complimented by the concurrent growth in its flag carrier, Copa (which codeshares with Continental Airlines). A recent United Nations report highlighted true progress in poverty reduction from 2001 to 2007 - overall poverty fell from 37% to 29% and extreme poverty fell from 19% to 12%. Yet, the distribution of Panama's wealth and income remains highly skewed, and Panama has one of the highest degrees of inequality in the Americas. This situation creates palpable resentment as BMWs and Land Rovers zip past hot, crowded, buses that subject riders to unreliable multi-hour commutes. Most inhabitants of Panama City have never visited an indigenous area or the Darien, where poverty predominates, and government services are minimal.

UNITED STATES/PANAMA TRADE

¶16. (SBU) The U.S. goods trade surplus with Panama was \$4.5 billion in 2008. U.S. goods exports in 2008 were \$4.9 billion. U.S. exports to Panama have grown by 130% from 2005 to 2008. The stock of U.S. foreign direct investment (FDI) in Panama was \$6.2 billion in 2007 (latest data available). U.S. FDI in Panama is concentrated largely in the nonbank holding companies and finance sectors.

FREE TRADE AGREEMENT
formerly known as Trade Promotion Agreement)

¶17. (SBU) On June 28, 2007, the United States and Panama signed a Free Trade Agreement (FTA). Panama approved the FTA on July 11, 2007. The FTA is a comprehensive free trade agreement. When/if implemented, the FTA will result in significant liberalization of trade in goods and services, including financial services. The FTA also includes important disciplines relating to: customs administration and trade facilitation, technical barriers to trade, government procurement, investment, telecommunications, electronic commerce, intellectual property rights, transparency and anti-corruption, financial services, and labor and environmental protection. Under the FTA, Panama will be obligated to liberalize the services sector beyond its commitments under the WTO General Agreement on Trade in Services by adopting a negative list approach where all sectors are covered except where it has made specific exceptions. Moreover, in connection with the FTA, Panama agreed to become a full participant in the WTO Information

Technology Agreement, and entered into an agreement with the United States that resolved a number of regulatory barriers to trade in agricultural goods ranging from meat and poultry to processed products, including dairy and rice.

Tariffs

¶18. (SBU) Panama's maximum tariff on industrial goods is 20 percent. Panama's tariffs on agricultural goods range from 10 percent to more than 250 percent. When/if the FTA enters into force, 88 percent of U.S. exports of consumer and industrial goods will enter Panama duty free, with remaining tariffs phased out over periods of 5 years or 10 years. The FTA includes "zero-for-zero" immediate duty free access for key U.S. sectors and products, including agricultural and construction equipment, information technology products, and medical and scientific equipment. Other key U.S. export sectors such as motor vehicles and parts, paper and wood products, and chemicals also will obtain significant access to Panama's market as duties are phased out. The FTA provides for immediate duty free treatment for more than half of U.S. agricultural exports to Panama, including high quality beef, certain pork and poultry products, cotton, wheat, soybeans and soybean meal, most fresh fruits and tree nuts, distilled spirits and wine, and a wide assortment of processed products. Duties on other agricultural goods will be phased out within 5 years to 12 years, and for the most sensitive products within 15 years to 20 years. The FTA also provides for expanded market access opportunities through tariff-rate quotas (TRQs) for agricultural product such as pork, chicken leg quarters, dairy products, corn, rice, refined corn oil, dried beans, frozen French fries, and tomato products. These TRQs will permit immediate duty free access for specified quantities that will increase as over-quota duties are phased out over the course of the implementation period.

¶19. (SBU) Apparel products made in Panama will be duty free under the FTA if they use U.S. or Panamanian fabric and yarn, thereby supporting U.S. fabric and yarn exports and jobs. Strong customs cooperation commitments between the United States and Panama under the FTA will allow for verification of claims of origin or preferential treatment, and denial of preferential treatment or entry if claims cannot be verified.

Panama Counter-Narcotics Overview

¶20. (SBU) Panama is one of the USG's most important partners in the fight against the drug trade, and its close counter-narcotics cooperation with the U.S. in 2008 led to the seizure of 51 metric tons of cocaine, following seizures of 60 tons in 2007 and 40 tons in 2006. These were the highest seizure figures in the region by far. Police also seized over \$3 million in cash linked to drug trafficking, confiscated \$1.5 million from 42 bank accounts, and arrested 126 people for international drug-related offenses. The seizure rates reveal that Panama continues to be a major trans-shipment country for illegal drugs to the United States and Europe, as a result of its geographic position in the drug trafficking "transit zone." Drugs are shipped by go-fast outboard-motor boats through Panama's territorial waters on the Pacific and Caribbean coasts - an area that is two times the size of Panama's land mass - and overland through the dense forests of Panama's Darien province. The drugs are trafficked by Colombian and Mexican drug trafficking organizations (DTOs), and by elements of the FARC and the remnants of paramilitary organizations. These organizations have protagonized a significant increase in violent crime in Panama this year, a fact that has led to increasing social alarm in Panama. As a result of this, the Government of Panama called a meeting of the presidents of Panama, Colombia, Mexico and Guatemala in late 2008 to promote greater cooperation in the struggle against international organized crime and drug trafficking. As a result, the four governments are working on concrete plans to confront the DTOs through law enforcement cooperation and information sharing.

¶21. (SBU) Panama has limited resources to confront the drug traffickers. Having disbanded its military in 1989, following the U.S. invasion, Panama has a National Police (PNP) force

of approximately 15,000. Security reforms were implemented in 2008 to try to increase Panama's ability to confront the drug traffickers, including the creation of a coast guard-like National Aero-Naval Service (SENAN), and breaking off a National Frontier Service from the police to cover the boarders. These forces are in their infancy, however, and Panama still has very limited air and sea assets with which to adequately control its territorial waters. The U.S. Coast Guard has the right to enter Panama's territorial waters in pursuit of drug traffickers, and has had success seizing go-fasts. However, USCG does not have sufficient available assets to shut down the coastal route either.

¶22. (SBU) Post plans to use Merida Initiative funds to build up Panama's capacity to deal with this serious drug-trafficking threat, and its growing gang problem. NAS funds will be used to retrain the PNP in community policing techniques, while USAID administered Economic Support Funds (ESF) are used to develop an effective community-based gang violence prevention program. The prevention program will focus on the two major urban centers, Panama City and Colon, and on the rural communities of the Darien, which suffer from significant drug trafficking activities. Post's program will work to build ties between the community based organizations and the police, so that the two parts of the strategy support one another, and create a self-reinforcing circle of success. At the same time, Post will continue with our traditional assistance to Panama's counter-narcotics efforts, including highly effective vetted-units, Coast Guard-SENAN cooperation, and support for Panamanian efforts to tighten control of its borders, ports and airports.

MERIDA and PANAMA

¶23. (SBU) Panama is a major transit location for the drug trade between Colombia and the U.S. and Europe. Huge amounts of cocaine transit through its territorial waters and over the Pan-American Highway everyday. Panama is taking decisive action against traffickers, and is one of the top countries in Latin America in terms of drug seizures. This is due primarily to its excellent collaborative CN relationship with the U.S., and the work of a small group of elite police officers.

¶24. (SBU) While Panama's security apparatus rakes up impressive drug seizures, the Panamanian public is alarmed by a perceived wave of crime and insecurity. This is largely a result of Panama's nascent gang problem. Indigenous youth gangs are developing in all of Panama's slums, especially in Panama City, Colon and David in the west. This gang activity is the result of enduring poverty and poor education leaving young people without the skills to succeed in Panama's rapidly growing economy. Meanwhile, Colombian and Mexican drug traffickers offer increasing opportunities for criminal groups to make money by stealing from drug dealers (tumbos), selling drugs on the local market and by acting as paid killers. While Panamanian authorities insist that the recent wave of killings is mostly among youth gangs and drug dealers, the public is nevertheless seriously concerned about the perceived erosion of security in Panama's streets. Embassy Panama believes that it is essential to help the GOP confront the gang problem now. The gangs are becoming more entrenched and sophisticated all the time according to local prosecutors, and could eventually offer the drug cartels a ready made local structure, should they decide to move their operations to Panama. Panama is potentially a very attractive location for the drug cartels to re-locate to once the Merida Initiative makes operating in Mexico more difficult, due to its world-class banking system, miles of unpopulated coastline in the middle of the transit zone, and highly developed shipping and cargo infrastructure sitting on one of the most important shipping lanes in the world. Getting the gang problem under control now is the best way to prevent the cartels from eventually bringing their brand of terror and violence to Panama, potentially threatening one of the most important commercial hubs in the world.

¶25. (SBU) Embassy Panama proposes a holistic, integrated inter-agency approach to the problem, using Merida funding to give life to a strategy, rather than building a strategy around funding streams. The foundation for our strategy is community policing. Post believes that the gang problem cannot be brought under control unless and until the police and the community come together to reclaim the streets of Panama's poor neighborhoods. Many of these neighborhoods have suffered for years from a scarce police presence. When present, police are a foreign presence, due to short tours of duty meant to avoid corruption. Post is working with the Panamanian National Police (PNP) to implement a Community Police strategy, in conjunction with the Miami Dade Police Department, to indoctrinate the highest level of the police leadership in the concept of community policing. At the same time we are implementing a "culture of lawfulness" program to build up the PNP's ability to police itself. Community organizations are also being reestablished to interact with the police, not just to identify criminal activities, but to report on police corruption and malfeasance. Post will use additional funds allotted through Merida to strengthen the PNP's ability to investigate and discipline internal corruption as a prerequisite for effective community policing. ILEA funds will also be used to strengthen the PNP's leadership, and prepare them to lead an organization which is ready to work with the community to aggressively target criminal gangs, without violating the democratic foundations of the state, and the rule of law.

¶26. (SBU) Post will also work with the courts and prosecutors to increase their ability to investigate, prosecute and try gang activities. This will be increasingly difficult as Panama transfers to the accusatorial system over the next five years. While in the long run this transformation will be positive, and help to avoid the long and unnecessary incarcerations of suspects which frequently lead to the creation of youth gangs in prison for self-protection, it will be a traumatic change over if the justice system is not adequately prepared. The Central American Finger Print Exchange will be a valuable tool for prosecutors, as they face the need to provide independent evidence besides police testimony to gain convictions. Post will work to see if creative use of this system can meet requests we have received for help setting up a "tattoo" data bank to help prosecute gang suspects. Post will also use available USG assets, including training seminars by TDY federal agents, to help Panama establish the basic tools for successful prosecutions, including forensic investigation and a witness protection program.

¶27. (SBU) While improvements in policing and prosecution of gang cases can help deter gang activity, and take gang leaders off the streets, Post believes that Panama is in a strong situation to establish an effective youth engagement program which prevents youth from joining gangs. Unlike many of the countries affected by gang activity, Panama is experiencing an economic boom, in which qualified workers are in short supply. Here the resources of the Merida Initiative are vital to implement a strategy of gang prevention. USAID Panama has developed an excellent plan to develop youth centers in high risk areas, in conjunction with Panamanian NGOs and faith-based organizations, which will provide vocational training, extra-curricular activities, safe-haven recreational activities. These activities will take place in coordination with a GOP Integral Security Program, financed by the Inter-American Development Bank. Post has already had preliminary talks with the GOP and the IDB about collaborating on this issue. ECA educational programs, especially the English Access Micro-scholarships, would play a key role in anchoring these centers, and providing real opportunities for youth to get the kinds of skills which can give youth a path to productive employment. Post also plans to partner with the active American business community to develop business education programs, internship programs, and even first-job programs with companies who are not just socially responsible, but also badly in need of qualified workers.

¶ 128. (SBU) While Post is strongly committed to this strategy for success, there is no intention to abandon the extremely successful model of intelligence sharing, and small elite unit operations which have made Panama a great success in the interdiction effort, and will hopefully give the cartels cause to pause before moving their operations to Panama in the future. Merida Initiative aid for vetted units, information sharing, border inspection and maritime interdiction will be used to further strengthen Panama's successful programs, and to disrupt drug trafficking routes in Central America.

Security/Counter-Terrorism

¶ 129. (SBU) Panama's main terrorism concern is an attack against the Canal. The Panama Canal Authority and the Government of Panama work closely together to protect the Canal, and the ODC has trained several elite squads of security forces to protect the Canal in the event of an attack. Panama co-hosts the annual PANAMAX exercise, a multinational security training exercise tailored to the defense of the Panama Canal. The exercise replicates real world threats to the Canal in order to develop appropriate responses and guarantee safe passage to the approaches to the canal and through the waterway. 20 nations, including the United States, participate. On the margins of PANAMAX, Panama hosts a tabletop exercise specifically designed to enhance its ability to address asymmetric threats.

¶ 130. (SBU) Panama's other main terrorism concern is the presence of drug trafficking organizations (DTOs) and elements of the FARC in the Darien. With a population of no more than 50,000 and only one main road, the Darien is a very underdeveloped region on the border with Colombia, which is physically and psychologically remote for most Panamanians. Elements of the FARC have long used the parts of this region closest to the border as a rest and relaxation zone, in addition to organizing drug trafficking and logistical operations in support of other FARC units inside of Colombia. In trying to confront this threat, Panama is limited by the fact that it has no military forces, following their dissolution after Operation Just Cause in 1989. Panama's security is the responsibility of the National Police (PNP), the National Aero-Naval Service (SENAN), the National Frontier Service (SENAFRONT), and the Institutional Protection Service (SPI Secret Service equivalent). The Torrijos government spun SENAFRONT off from the PNP late last year in an attempt to stand up a more capable force on the border that could keep the DTOs and the FARC under control. While this was a good first step, SENAFRONT is still far away in terms of size, training and equipment from being able to take on the FARC. Post, through our Narcotics Affairs Section (NAS) and our Office of Defense Cooperation (ODC - SouthCom) has been working with limited funds to assist the development of SENAFRONT with training and equipment.

¶ 131. (SBU) Post is developing a proposal for DOD counter-insurgency funds that would stress a "whole of government" strategy, based on the idea that the real danger of the FARC and DTOs in the Darien is that they may be able to usurp the legitimacy of the state in an area where the state had little effective presence beyond the main road and a few SENAFRONT bases, and the FARC and DTOs are able to buy consciences by paying premium prices for goods and assistance with the drug trade. The funds would be used to leverage GOP funds and spearhead an effort to develop effective techniques for improving government services in remote areas. This program would go hand in hand with other DOD funded programs to improve SENAFRONT's logistical capabilities so it could cut the drug, weapons and supply trafficking routes in the Darien.

Biography of President Martin Torrijos

¶32. (SBU) Martin Torrijos, inaugurated on September 1, 2004, soundly defeated all opponents in Panama's May 2004 nationwide election, garnering 47% of the popular vote to win by a 16% margin over second-place finisher former president Guillermo Endara (1989-94). Torrijos began campaigning for the 2004 election after losing in 1999 to Mireya Moscoso by an eight-point margin (41% to 33%).

¶33. SBU) Torrijos is currently serving his third term as Secretary General of Panama's largest political party, the Democratic Revolutionary Party (PRD), which also controls 42 of Panama's 78 legislative seats as well as its presidency. Martin Torrijos has revitalized the PRD that his father founded in 1981, long criticized as the corrupt political arm of Panama's 21-year military dictatorship, by bringing its membership into Panama's professional and intellectual mainstream and attracting new activists to the party. Torrijos' involvement in Panamanian politics began in 1992 when he joined efforts to reinvigorate and reorganize the then-opposition PRD, which had fallen into disarray following Operation Just Cause in 1989. Torrijos actively supported President Ernesto Perez Balladares' 1994 presidential election campaign, and was later appointed Vice Minister of Government and Justice where he continued until 1998. In 1996, Torrijos was elected Secretary General of the PRD youth movement.

34 (SBU) Torrijos, the son of former strongman General Omar Torrijos Herrera, was born in Panama City. His mother, Xenia Espino Duran, a U.S.- educated flight attendant, was part of a large, traditional family from the provinces of Herrera and Los Santos. As a child, he lived in the small-town of Chitre in the Province of Herrera, as part of a large extended family. When Torrijos reached school age (around the time his father rose to power in Panama) he and his mother moved to Panama City, where Martin attended private school.

¶35. (SBU) Torrijos graduated from St. John's Northwestern Academy in Dalefield, Wisconsin in 1981, and later attended Texas A&M University where he received degrees in Political Science (1986) and Economics (1988). After obtaining his second degree, Torrijos moved to Chicago where he worked for four years in the family business of his father's close friend, Cirilo McSween.

¶36. (SBU) In 1990, Torrijos married the former Vivian Fernandez Bello, the daughter of an influential Cuban-born public relations executive. The couple has three children, Daniella, Martin Jr., and Nicolas. Torrijos and his wife speak English fluently.

Biography of First Vice President
and Foreign Minister Samuel Lewis

¶37. (SBU) Samuel Lewis Navarro ("Sam") is a close friend of President Martin Torrijos. Lewis was Vice President of the Solidarity Party until February 2003 when he withdrew from that party (of which his uncle, Samuel Lewis Galindo, was president at the time) due to its choice of former President Guillermo Endara (1990-94) as its presidential candidate. Samuel Lewis Navarro worked for the Solidarity Party for the Presidential Campaigns of his uncle, Samuel Lewis Galindo in 1994 and of Alberto Vallarino in 1999.

¶38. (SBU) Before Torrijos chose him as his First Vice President, Lewis had focused his efforts on running the family business, CIACSA, a holding company that controls the Lewis family's numerous domestic and international business interests focused primarily on boxes, paper products, and fruit processing. Appointed to the Board of Directors of the Panama Canal Authority by former President Ernesto Perez Balladares (1994-99), Lewis was replaced in May of 2001 by a Moscoso appointee.

¶39. (SBU) Samuel Lewis Navarro is extremely well-connected politically (and economically). He was the frequent companion of his father, Gabriel Lewis Galindo, during his long political career. That career included assignment to Washington as Panama's Ambassador to the U.S. (1977-78); a period of exile in the U.S. during the 1980s; founding work in support of the National Civic Crusade against Noriega; and finally a term as Foreign Minister (1994-96) during the Perez Balladares administration. Gabriel Lewis Galindo founded the Solidarity Party in 1993 with his brother Samuel Lewis Galindo. Current Mayor of Panama Juan Carlos Navarro is Sam's first cousin.

¶40. (SBU) Lewis has maintained his father's high-level political connections in the U.S. Former President Jimmy Carter has visited his home on Contadora Island in the Pacific Ocean on several occasions. More recently, in May 2004 Lewis met with Deputy Secretary of State Richard Armitage in Washington. He is also a personal friend of many in the Kennedy family. Samuel Lewis Navarro's great-great-grandfather was one of Panama's founding fathers, and both his grandfather and his great-grandfather served as Foreign Minister in their eras.

¶41. (SBU) Samuel Lewis Navarro has a degree in Business Administration from Georgetown University. He is married to his second wife, with whom he has two young children, a boy and a girl. Lewis' college-aged son and daughter from his first marriage are currently studying in the United States.
STEPHENSON